

2006 ENVIRONMENTAL NEGOTIATIONS COMPETITION
CONFIDENTIAL INSTRUCTIONS FOR TIMBERLINE PRODUCTS, INC.
FINAL ROUND

Harry realizes that TPI is in trouble. Nonetheless, he also feels sure that he can hold off any foreclosure by TPI's lenders with his new plans for the aggregate business and divestiture of his non-timber holdings (containing the wrath of his father, however, is an entirely different matter). Although it would be easy to leave this mess behind and return to New York, as a native of Salmon Run himself, Harry does want to find a reasonable solution to the destruction of Salmon Run and also keep the company going.

1. Compensation for the damage to the homes and businesses of Salmon Run. In the face of the threatened foreclosure, TPI cannot afford to pay much more than its \$50 million of insurance proceeds in cash. TPI now desperately needs the bulk of its \$30 million capital reserves to provide ongoing good-faith payments to its lenders and bondholders. TPI also realizes that it will need anything left over after paying its lenders to shore up its timber operations, start-up its proposed aggregate operations, and fund job retraining for the workers it will need for the latter operations. Thus, you should feel free to offer the full \$50 million up front to the plaintiffs' group as compensation, but keep any cash commitments above that to a bare minimum (if any). Alternatively (or in addition, as needed), you could consider offering a percentage of future earnings from TPI's timber and aggregate operations in addition to the cash offered now, but keep any discussion (and promise) regarding this possibility vague (given that you don't know how the lenders and bondholders will respond), and tie it into net (not gross) earnings.

2. Restoration of Devil's Avalanche and the Steelhead River. TPI has neither the expertise nor the money to fund the necessary restoration. What you can do is to commit to coordinate TPI's aggregate operations with restoration of the river by others (knowing that TRAC is likely to oppose the aggregate business anyway), and promise the manpower of existing (and currently displaced) TPI employees to assist in the restoration effort. As incentives to those employees to join in the effort, you can commit to guaranteeing them their jobs (with either the timber company or in the aggregate business) on completion of the restoration, continuing their health and pension benefits in the interim, and, if necessary, providing "make up" salaries to bring those workers into parity with their former salaries.

3. Continuing operation of TPI. TPI needs to complete repairs at its mill and provide for necessary capital conversions to accommodate the aggregate business (both of which will be covered by insurance). TPI also needs to step up its timber operations to resume harvesting under its outstanding approved THPs. TPI is certain that TRAC will fight the aggregate business on environmental grounds, but is confident it will win on this point, as its employees and the town's chamber of commerce have already expressed support for TPI's expanded operations. At the same time, TPI recognizes that, while it has the upper hand in the negotiation to save its business, it will have to accept certain limitations, including monitoring and oversight, and limitations on the amount of

aggregate extracted. You should resist, however, any attempts to limit TPI's ability to conduct either its timber or aggregate operations well into the future. TPI believes that it can operate a successful aggregate operation if it can extract at least 100,000 yards per year, though, of course, it would like to be able to extract the entire 250,000 yards to which it is entitled. The closer it can operate the logging business and also add the aggregate business at full capacity, the more likely it will be able to retain most, if not all, of its 175 employees. Be prepared to accept any reasonable proposals and limitations on both your timber and aggregate operations, so long as TPI is allowed to operate into the foreseeable future and return to profitability.

4. Preservation of old growth trees held by TPI. TPI knows that it no longer can take a hard line in opposing setting aside some or all of its so-called "crown jewel" forests. Practicably, TPI also recognizes that it stands to make some money in the process, money sorely needed to satisfy its lenders and support its ongoing operations. The lands in issue total 55,000-95,000 acres, with a value (unmilled) estimated at \$45-100 million. TPI has valuations estimating the commercial (milled) value of these lands at \$125-250 million. Ideally, TPI would like to retain as much of these forests as it can for future operations. In your negotiations, you should leverage the trade of some or all of these lands as "in lieu" for the plaintiffs' cash demands (particularly for any demands above TPI's \$50 million insurance proceeds), or via sale (assuming plaintiffs propose a viable source of funds). You also may use the timing of the transfer or sale of these lands in your negotiations, if you find it would be useful.

It is up to the parties how to proceed with this negotiation.